

MANAGEMENT THROUGH BUDGET IN THE CONTEXT OF U.E. INTEGRATION AND ECONOMIC CHANGE

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Abstract

In the context of E.U. integration and economic change emerges a new organization (the firm) based on knowledge, which uses as managerial method, a method of financial management- the management through budget. Having in view a profitable activity, this method assumes solving three interdependent problems: financing (attraction and using of the capital), risk (removal of the bankruptcy risk) and performance (obtaining the performance- rationality and maxim efficiency of the activity). These fundamental problems were at all times, but their importance magnified now, at the beginning of the 21st century. By solving these problems and taking into account the implications of change on the organizations, we can adapt to the European requirements and we can raise competitiveness on the E.U. market.

The Management of Change

The basic characteristic of the 21st century is change, which emphasizes renewal, but also incertitude and risk, that means both the design of a new organization (the firm) and a greater diversification of knowledge.

Change aims at all types of organizations and the permutation of the clock-like organization in a continuous organization.

The essential goals of change are:

- putting into practice the knowledge on tools, products, processes, work design and on knowledge itself;
- the organizational culture which assimilates change quickly and positively;
- a new type of management, capable to anticipate, conveniently, the requirements of change, to make the co-workers realize its importance and operate it quickly and with maximum results, under the available circumstances;
- the permutation of the strong points into something useful and of the weak points into something irrelevant;
- getting the strategic advantage;

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- client orientation;
- the transition from the organization of activities in operations to the organization in business processes.

Change must begin from top to the bottom hierarchy, the role of management of change being essential. Change has, as “enemies”, inertia, conservative attitude, comfort, self-complacency and arrogance.

Change fails when its meaning and risk are not understood. To succeed, we need to change the corporate culture, in such way that every person should find their place in the firm of the future. We need to develop an organizational culture centred on the values of knowledge and communication.

Change assumes a management of change supported by management of exception, diversity and instability.

The organization (the firm) newly emerging in the context of this change is based on risk management which can appear because of the pressure of the competition, the development in science, the changes of the company policies in general, globalization, the pressure of legislation and the financial inspection.

The firm of the 21st century needs to improve in order to avoid the firm risk:

- vision on the way of using information about risk in the decisional process;
- the preparation of the personnel for using the information about risk in adopting decisions;
- the development of some ample criteria for measuring the managerial performances, behind those traditional;
- the use of risk to obtain a better activity of accounting, audit, planning, programming and implementation;
- the permutation of the process of understanding risk into an efficient one;
- the implementation of risk management does not have to be only an answer to effective risk, but to the way in which the firm organizes, allocates the responsibilities, approaches risk management and implements it.

“The organization of the future” is the organization that has covered the phases of growth and using knowledge, as a competitive advantage. It is also an organization with new functions: coordination, protection and integration of knowledge. And, as a new element, it has the managers of knowledge. It is an organization that learns, which is characterized by the “learning of change”. On this background, the readjustment of resources and activities takes place, through confinement of the traditional ones, based on material resources and maximization of those based on intellectual, intangible resources. The new firm adopts a new mode of organization, with less structured networks, with semiautonomous teams, with greater mobility and initiative, reducing the hierarchical levels.

Simultaneously, with the emergence of the new organization we can develop management of knowledge, as a science, but also, as practical activity, as subject matter, with functions and principles and with implications in the components of the management system of the organization.

Incertitude, the last element which “defines” change, accompanies both risk and renewal, because these elements depend on one another.

Within the “organization of the future” results should be the most important, not the efforts. The results can be obtained by exploiting the occasions, not by solving the problems. Thus, we must allocate the resources to the occasions and not to the problems.

For a correct allocation of the financial resources, a specific method of management can be used - management through budget.

Management through Budget

Management through budget represents a managerial method mainly applied in the financial management (management of profit, of the financial and patrimonial statement of a firm and certainly removing the risk and incertitude within the firm). The method of management through budget is based on checking the accomplishment of the budgets anticipations drafted at the level of the firm and its organizational links.

The budgets anticipate the cost limits within which the firm objectives and its organizational links must be achieved and, if it is possible, the incomes obtained by meeting those objectives.

The budget is in fact an anticipative or prospective analysis (it aims at the perspective of the activity) which starts from a post- factum analysis (concerned with the present and the past).

The budget of revenues and expenditures will reflect the mode of combining, administrating and using the financial means and will assure the information input needed for substantiating the decisions regarding the administration of the organization.

The management through budget represents a continuous activity which spreads one year, in all the domains and processes that characterise the organization.

The correct budgeting of the activity assumes reorganization, restructuring, reforming to be framed in the quantitative and efficiency limitations imposed by the financial division, the financial decisions.

This managerial method through budgets, assumes the achievement of the following assumptions and requirements:

- a system of balancing (revenues- expenditures, receipts- payments);

- a strategy and an adequate programme for assuring and using the resources and for obtaining profit;
- the structuring of the firm on profit and loss centres;
- a system of balancing in efforts and effects;
- essential requirements: adequate organizational and functional structures, adequate informational system, adequate accounting organization, etc.

If we use this method, we must constitute in the organization, centres of internal transaction for the most important activities.

The internal transaction centres can be: revenues centres, expenditures centres and profit centres.

A. The revenues centres are those organizational links in which we can appreciate the monetary activity knowing the incomes realised.

B. The expenditures centres are those organizational links in which performances can be measured according to the framing in the level of the expenditure budget.

C. The profit centres are those organizational links in which we can appreciate the performances through the realised profit, calculated as a difference between revenues and expenditures. In this case, the inspection is oriented on the realised level of the indicators of the incomes and expenditures budget and especially of the profit.

“The application of the management through budgets assumes the next phases:

- the dimension of the goals under indicators;
- the elaboration of the budget’s system at the level firm;
- the organization of the informational system as an addition for the budgets;
- the coordination of the budget’s system;
- the control and appreciation of the accomplishments.” (1.)

Thus, using this method, we will know better both the expenditures and the revenues of the firm, elements which are at the base of a budget. The budget can help us solve the fundamental problems of the E.U. integration and the economic change that characterize this century.

A consultant in the domain, affirmed: “To know where to get the capitals from, on time, in the needed structure and at the lowest costs, to know how to allocate them with the lowest risks and to obtain the profits expected by all the “actors” on the stage of the firm, is a true fascination.” (2.)

This opinion represents, in essence, the role of financial management and his importance and anticipates, also, the fundamental problems of Romania from the integration perspective and economical change.

The Fundamental Problems: Financing, Risk and Performance

The fundamental problems start with financing, assuring capitals. Without capital we cannot realize the objects of a company, we cannot be engaged in business, and, as a result, we cannot carry on an economic activity. Without capital, the firm cannot develop, the investments are absent, or have a small value.

The second matter, risk, mostly derives, directly or indirectly, from the business risk. Essentially, the business risk, is the bankruptcy risk, which is a sum of the economic and financial risk (that means no liquid assets, no solvency, which eventually is based on the failure of the anticipated profit and a faulty management of receipts and expenses). To all these, we can add the effect of the other types of risk (political, judicial, etc.). We try to remove risk or to minimize it, through a better administration.

The third matter, performance, is characterized by 2 parameters: quality and profit. Quality without profit is, in fact, non-quality, while obtaining profit without quality is a form of disguised larceny. To have performance, a firm, must obtain profit, to sell products or to perform services with a very good quality and with a lower price. The firm must have very small costs. The profit, is, the rationality of every economical activity, being the motivation or the mobile of any activity, because without profit we cannot justify the economic activity. To maximize the profit in a firm is the principal criterion of rationality and efficiency.

Conclusion

In practice, using management through budget, knowing as well as possible, the activity of the firm and by an efficient planning of this activity, we will be capable to control much better the destination of the capitals (the financing of the firm), we will be capable to discard risk and to increase performance.

Performance, along with financing and risk, represent current and long-term matters, which should draw great attention on all managerial levels of the firms to assure an easier insertion on the E.U. market.

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